STRATEGY RESEARCH PROJECT

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THE EUROPEAN MONETARY UNION AND EUROPEAN SECURITY DEFENSE POLICY: THEIR IMPACT ON U.S. DEFENSE COOPERATION

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The European Monetary Union and European Security Defense Policy: Their impact on U.S. Defense Cooperation

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ABSTRACT

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On November 1, 1993 under the Maastricht Treaty, the European Community (EC) formally became the EU. On 2 May 1998 the Commission announced that eleven European countries qualified for and decided to join a single currency area called the European Monetary Union (EMU). Success or failure of the EMU will have far reaching consequences for the economies of nations in Europe and the U.S. In addition, the same Treaty of Maastricht provides language for a common European defense. In subsequent meetings, this has become known as the European Security Defense Policy (ESDP) and within NATO, the European Security Defense Initiative (ESDI). At a unique time in history, Europeans are re-engineering their economic and defense structure, and it is not known what the long-term effects of those processes will be on Defense Cooperation between Europeans and the United States.

This SRP will examine the establishment of the EMU and ESDP, the benefits and risks shared by each and their effect on Defense Cooperation with the United States. I will propose recommendations that may help the U.S. deal with this situation in the future.

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PREFACE

How will the Army's transformation contribute to national security? Certainly an important question given the quantity of resources, both in people and national treasure, being used to achieve the goal the Army has set for itself. A newly engineered U.S. Army, able to face the challenges that will project themselves against our country well into the 21st century, will be more efficient and more effective. As the Army takes advantage of technology to provide the "overmatch" it seeks in weapons and our ability to employ them, the return on the investment from our transformed Army will cost the taxpayers less in the aggregate of national treasure and human capital. However, an Army whose goals are to maneuver, fight and operate within the full spectrum of operations (spanning disaster relief operations to strategic nuclear war) will not always be able to fight alone. Since our national strategy will not fundamentally change, the United States will rely more and more upon its allies for assistance and support where the interests of those allies are also challenged.

By implementing and using the process of defense cooperation, the United States (and our Army) will maintain its dominant edge as a global power. The fruits of the process of Allied participation in such areas as cooperative Research and Development, and Foreign Military Sales and Commercial Sales (FMS) will certainly provide the U.S. and its allies an opportunity to level the technological playing field. Those opportunities will also become the mechanism that will permit the U.S. and its allies to understand each other's goals, doctrine and technology. In the long run, many of our successes will be due in large part to a commitment to shared technologies, weapons and tactics with our Allies. At the same time, our Allies can become totally integrated into the entire process of warfighting with the United States while helping to maintain their own military and technological edge. Ultimately, defense cooperation will both strengthen our positions against our enemies and enhance the ease with which our countries will be able to decisively win wars. The bottom line is that defense cooperation is of benefit to the United States, and is a critically important component of our National Strategy.

The purpose of this paper is to address an issue that could materialize itself as being either problematic to U.S. Security or in fact may ultimately prove itself as beneficial depending on how the U.S. approaches the issues. For this paper, I use the Euro as a symbol of changes that are occurring within the European Union (EU), not only from an economic perspective, but also from the EU's goal to produce a common defensive force. It is said by many Europeans that the process of implementing the Euro symbolizes a real threat to the democracy of nation-states, because ultimately, that process will have the effect of diminishing the power of the citizenry of those participating EMU countries by removing national identities. As the EU strives to craft a common European Security and Defense Policy (ESDP) of its own, the process of implementing a common currency will have the possible economic effect of stimulating a nationalistic passion to maintain states' identities within the EU. An extension of that argument would lead to the belief that the business of defense cooperation between this country and our European allies might suffer as a consequence. Nationalism, practiced by one or more countries for economic reasons, could become a counter to cooperation with a net decrease or loss in the transfusion of technology, sales, education and other cooperative efforts with our European allies.

This paper will examine the formation of the EMU and a Europe troubled by potential economic hardships coupled with a need for its own defense identity. I will make recommendations on how the Department of Defense might better approach these new developments.

EURO-ATLANTIC UNIFICATION AND GLOBALIZATION

> "There should be no confusion about America's position on the need for a stronger Europe. We are not against; we are not ambivalent; we are not anxious; we are for it. We want to see a Europe that can act effectively through the Alliance or, if NATO is not engaged, on its own. Period, end of debate."
>
> ------ Strobe Talbot

AMERICA'S CORE VITAL INTERESTS

Before beginning to discuss the EMU (represented by the Euro) and its potential effect on defense cooperation, it would be helpful to describe exactly what our U.S. vital interests are (as defined within our National Security Strategy). These vital interests describe the collective values of the U.S.—what ultimately motivates us as a nation to act the way we do. These interests translate into actions that have a direct impact on how we deal with our allies and other nations, and also affect our strategy of defense cooperation. Vital interests, as described in the 1999 National Security Strategy are, "those of broad, overriding importance to the survival, safety and vitality of our nation."[1] In brief, we can categorize these vital interests as follows:

- To insure the fair treatment and safety of our citizens abroad
- To insure the economic well-being of our nation, preserve our democratic way of life, and guarantee the right of U.S. citizens to live in peace
- To protect US freedom of international navigation, communication, and commerce, including open and equal access to the "global commons"—international waters, territories, and air space
- To protect the sovereignty and territorial integrity of the US and our Allies

These "core" interests represent "core" values that include representative governance, free market economies, respect for the rule of law and of human rights and lastly, the promotion of peace, prosperity and cooperation.

THE AFFECTS OF A GLOBAL ECONOMY

The world has become increasingly more "democratized." As countries begin to shed the weight of communism, we can expect them to become involved with other free nations in all manner of trade (imports and exports). This trade positively affects the overall "globalization" of the world's economy. Smaller countries will continue to grow using free trade, which in turn will become the mechanism for the growth and stability of all democratized nations both large and small. Smaller countries will continue their economic development while increased economic competition among nations continues to grow. As countries grow, some will become slaves to specialization and will essentially have dual economies that are often times stratified through the use of poor trade policy or market failures.[2] Countries that may suffer during these periods of global growth will be those with command-style economies. That is, these nations become overly dependent on primary and extractive industries, and become deficient in transportation, telecommunications, and scientific-technical infrastructures.[3]

EMERGING NATION-STATES WANT TO JOIN THE EU

One of the immediate problems, however, is that former Cold War nation-states which elect to shed communism for capitalism will begin to rebuild themselves and their economies with a rocky start, and no doubt will be more at the mercy of world economic trends. Obviously, in their previous lives they were much more used to state-run and legislated economies that at least managed to maintain the status quo, no matter how bad or good things were.

A phenomenon associated with new and emerging states will be their reduced capacity to focus their economy on relatively expensive armaments or research and development (R&D).

Also, defense investment may continue to recede even in economically advanced nations. This will occur as a consequence of the lack of a paramount military threat and the increased pressures of international economic competition. Especially affected will be the capacity of second tier powers—such as France and Germany—to sustain full-service arms industries and "cutting edge" research and development establishments.[4] The chief factor in the post-Cold War draw down has become the size of military establishments and budgets in all countries, which in turn has motivated a quest for much more efficient weapons and methods to wage war. The expense of defense requires a cooperative synergism with allies that will become increasingly important.

As stated previously, economically underdeveloped nations will lack the capacity to build, buy, integrate, support, or effectively employ cutting-edge military systems in operationally significant quantities.[5] America must look to its larger allies, therefore, to help continue to finance the revolution in military affairs and technology that must precede substantive positive changes. Transatlantic security is vital because the U.S. has a permanent and vital national interest in preserving the security of our European and Canadian allies. [6] That is why changes in the European economy or changes in their business processes will have an affect on U.S. relations and cooperative ventures.

WEAPONS OF MASS DESTRUCTION AND ASYMMETRIC WARFARE

Countries which are economically underdeveloped, and which remain Western rivals may, as a matter of course, increasingly turn to asymmetric warfare---terrorism, insurgency, and Weapons of Mass Destruction (WMD) as methods for equalizing their status amongst the world's nations.[7] This is not a new premise, but one that will cause this country to plan in different ways for such eventualities. The effects of WMD on a country or countries in Europe would severely affect our ability to trade, communicate, and cooperate effectively with our allies. As the EMU evolves, one might ask how a scenario where WMD are used would affect the economies of not just one, but many countries that have pegged their economies to a fixed currency rate.

POSSIBILITIES AND PROBABILITIES

As the Globalization affects new countries, new economies and new ideologies and begins to balloon, there will likely be some "rips" in the balloon's fabric due to more pressure in one area than another (a cause and effect relationship for want of better words). These "rips" will manifest themselves in many different forms. A recent example might be the not too surprising election that resulted in a new Yugoslav government, and the replacement of Mr. Slobadon Milosevic. Within these regions (such as the former Yugoslavia and Balkans) the risk of essentially uncontrolled mass migration has been observed, along with the collapse of state structures, and widespread communal violence. Some of these developments will result in widespread interstate conflict as already seen in Bosnia-Herzegovina and Kosovo.

Even with richer states, the rapid economic and cultural change attendant on globalization and technical revolution will generate centrifugal pressures, manifest in various forms of extremism, intolerance, and class antagonism.[8] These kinds of actions and reactions are not only possible, but probable as regions and nations struggle to achieve parity with their neighbors and the rest of the world.

OPPORTUNITIES (TO BE LOST AND GAINED)

The world is experiencing less warfare today than at any time in living memory. For the next decade or longer the West will have the opportunity to lead the world in expanding the scope and depth of cooperative international endeavors. This partly reflects the triumph of Western values, and the un-blocking of existing global structures.[9] Only large or wealthy nations, which include such organizations as the G7/8 or Organization for Economic Cooperation and Development (OECD), will have the capital to influence a new world order (The G7/8 consists of France, U.S., Great Britain, Germany, Japan, Italy, Canada, EU, and Russia). These countries have the resources and stability to undertake global activism or underwrite the building of new global institutions and regimes.[10]

This simple observation is critical. It is precisely this logic, which leads us to understand why the United States must reach out to its allies and maintain its cooperative relations with regard to defense. Diminishing those lines of cooperation invites a certain amount of risk, while the loss of allied participation could be detrimental to U.S. foreign policy and increase the overall cost of defense for the U.S.

US LONG-TERM CONCERNS THAT EFFECT DEFENSE COOPERATION

ECONOMIC ISSUES

Just how important a role does economics play? Present economic trends pose two challenges for the United States that have important implications for our long-term security. First, to secure its competitive economic advantage the U.S. must invest more in its transportation, communications, and technology infrastructure, and it must boost the average skill level of its workforce. Second, the U.S. must take steps to better address domestic "quality of life" issues.[11] These were most certainly evidenced as important platform topics being discussed by our presidential candidates during their debates.

Failure to meet these challenges will undermine important sources of national strength, reducing our nation's long-term flexibility. Moreover, the drive to reduce government expenditures and taxes, which partly reflects the economic concerns above, puts an especially high premium on how federal resources are used. In short, the economies of each and every country throughout the world directly affect each nation's real and perceived strengths. This in turn affects the political will and the collective national will and morale of its people as well as a country's ability to act and react on a national or global scale. When applied to U.S. Grand Strategy, the economy of a country can become the center of gravity of a nation-state. Europe is an indispensable economic partner for the U.S. The EU is our largest investment and trading partner (with two-way trade valued at nearly $507B in 1999).[12] The EU invested more than $481B within the U.S., while we have invested almost the same amount ($433B) in Europe. That investment means jobs, and a more stable market for continued trade. If the EU accepts new trading partners within the next several years, it will comprise the world's largest single market.[13]

PARTNERS AND RIVALS

Beyond studying the United States' current geopolitical status, and by predicting change there is no way to second-guess who may become the new rivals to U.S. interests. The U.S. pursues a "shape, respond and prepare" strategy as a way of engaging with our allied partners. One such example of multilateral engagement is through the U.S. Partnership for Peace (PfP) efforts it maintains with our NATO allies, while at the same time using bilateral relationships between this country and individual allies and partners.[14]

MAJOR REGIONAL THREATS POSED BY LARGE NATIONS

Given the history of the United States within the last 10 years, it is likely that the U.S. may still become somehow involved in another Regional Conflict. Although, as the risk of major regional conflicts is diminishing, there are countries that have strategic goals distinctly antagonistic to Western interests. These countries exhibit patterns of behavior that deviate widely from international norms. These larger countries could be described as possessing armed forces comprising the rough qualitative equivalent of three or more U.S. heavy divisions, three or more U.S. fighter wings, and 300,000 or more people under arms.[15] Iraq and states within the former Soviet Union (i.e. Russia) would certainly fit this description. Economic circumstances will push unfriendly states to greater dependence on long-range and remote action "area weapons" as a means of coercion and deterrence. These systems include missiles, low-intensity warfare such as terrorism, insurgency, mines and WMD.[16]

SMALLER SCALE REGIONAL THREATS

These threats will become evident through smaller-scale acts of violence, coercion or aggression targeting (i) American allies or friends, (ii) US citizens or important US assets abroad, or (iii) important "global community assets"—such as freedom of navigation which will likely become more prolific. Certainly, a recent example being the terrorist bombing of the destroyer, USS Cole, as it made its port call in Yemen. Antagonists in these cases are usually states or sub-national actors. Possible U.S. military responses include preventative or deterrent deployments, straightforward defense or counter-offensive actions, retaliation, and citizen rescue or evacuation. These contingencies entail lighter forces on average but can include forces up to the size of a U.S. division with its organic support capabilities.

In these instances, the U.S. could look to its NATO and European allies for a variety of types of assistance in dispersing with the threat(s). Certainly, the alliance will not remain healthy if the U.S. is continually alone in some efforts that have common U.S. and European interests.

REGIONAL STABILITY PROBLEMS

These contingencies will have the character of "internal affairs," but their offshoots –genocide, mass migration, starvation, epidemics, mass criminal behavior—can destabilize entire regions. Again, the U.S. may still take the lead in organizing a response, but resource constraints and competing security demands may require that U.S. involvement occur only as part of a strictly balanced multinational effort.[17] Of course these regional conflicts may trigger mass migrations of refugees, which will add various crimes such as smuggling, human rights violations and a myriad of problems to those nations absorbing that tide of refugees.

Militarily, the U.S. will look to NATO, the UN and its allies and partners to form coalitions to solve these problems either multilaterally or bilaterally. Economically, it might look to the World Trade Organization (WT0), the Organization of Economic and Cooperative Development (OECD), or the International Monetary Fund (IMF) to become part of the problem-solving process. The U.S. could look for some multiplier through the use of trade initiatives or monetary policy before, during and after potential or actual crises as a non-military alternative to strengthening in its bargaining position.

DEFENSE COOPERATIVE

STRATEGY

DEFENSE COOPERATION DEFINED

Under the Arms Export Control Act as amended (AECA), the definition of Security Assistance is as follows:

- Assistance under chapter 2 (military assistance) or chapter 4 (economic support fund) or chapter 5 (military education and training) or chapter 6 (peacekeeping operations) or chapter 8 (anti-terrorism assistance) of this part;
- Sales of defense articles or services, extensions of credits (including participation in credits), and guarantees of loans under the Arms Export Control Act; or
- Any license in effect with respect to the export of defense articles or defense services to or for the armed forces under section 38 of the Arms Export Control Act.[18]

This definition provides statutory leverage over a broad range of activities. Within Section 1 of the AECA, the term International Defense Cooperation is further used as being almost synonymous with and encompassing security assistance. A partial definition follows:

"...The need for international defense cooperation among the United States and those friendly countries to which it is allied by mutual defense treaties is especially important, since the effectiveness of their armed forces to act in concert to deter or defeat aggression is directly related to the operational compatibility of their defense equipment."[19]

Additional Cooperative efforts include cooperative production, cooperative development agreements, evaluation of foreign systems, professional defense exchanges, data exchange agreements, humanitarian operations and various forums for sharing information. In short, the definitions of Defense Cooperation are many and varied. The United States uses standard definitions contained in AECA, but to some extent (e.g. de-mining operations) the meaning can be expanded to almost any cooperative venture the U.S. chooses to undertake.

GENERAL U.S. GOALS OF DEFENSE COOPERATION

Without becoming bogged down in the strategy for each facet of Defense Cooperation, it is useful at least to remember the broad overarching goals of our National Security Strategy, and apply them to Defense Cooperation.

Maintaining our overseas presence promotes regional stability, gives substance to our security commitments, helps to prevent the development of power vacuums and instability, and contributes to deterrence by demonstrating our determination to defend U.S., allied, and friendly interests in critical regions. [20] The U.S. relies on key regions of the world to advance its own economic prosperity, and linked heavily to goals it sets forth are military cooperative efforts. Again, these can be military-to-military contacts that include education and training, cooperative efforts in research and development, cooperative testing of equipment foreign to the U.S., the purchase and sales of military hardware, and the transfer of certain technologies between the U.S. and other countries.

The affects of open trade and coalitions (such as the Economic Monetary Union) have a direct effect on our ability to pursue military cooperation. It would be important to understand a little about the EMU, its history, its purpose in the EC, and something about the timetable the EC is following to establish the Euro. Again, it is important to reiterate that the Euro itself is not controversial. After all, the Euro is just a medium of monetary exchange. What is important however, is what the Euro symbolizes to Europeans. It is likely that fundamental economic processes, and the impact of those processes to the citizens of the EC would not be as much as an issue had not the implementation timeline of the Euro itself acted as a forcing function to bring a vast majority of interests together.

THE ECONOMIC AND MONETARY UNION

A SHORT HISTORY OF THE EU AND EMU

The history of the EU is interesting, having long roots. Perhaps a suitable place to begin is with the beginning of the EU itself in 1952. This is a good date because this was when the European Coal and Steel Community (ECSC) was established during the preceding Treaty of Paris in 1951. The European Defense Community (EDC) was established, and was also signed in Paris in 1952. This treaty, although ratified by the members of the ECSC, was vetoed by a majority of left wing and right wing radicals in the French Asemblée in August of 1954. Even then, this treaty had provided for a European army, a common budget and common institutions, among which was a directly elected Common Assembly (most certainly the forerunner organization to the current European Security Defense Plan (ESDP) of today). The Common Assembly was chartered to study ways of creating a federal organization with a clear separation of powers and a bicameral Parliament.[21]

In 1957 the Treaty of Rome established the European Economic Community (EEC), which was launched in 1958. Another interesting note is that, in1963, British Prime Minister Harold Macmillan applied for British membership in the Common Market, and was vetoed by France's President Charles DeGaulle. DeGaulle was simply afraid that the power base would shift to the English. In 1967, institutions of the ECSC and EEC were merged with a single European Commission replacing the ECSC high authority and EEC commission. Also, a single European Parliament (sometimes called the European Parliamentary Assembly) replaced the two virtual Assemblies of the Communities (although prior to this the assemblies were staffed with the same people acting in different capacities). President DeGaulle vetoed

Great Britain's application yet again in 1967 fearing his power and hold over the ECC would be greatly diminished. Finally, in 1971, Prime Minister Edward Heath successfully applied for admission, and on New Years Day in 1973, Great Britain was granted membership in the European Community.[22]

In 1979, we begin to see the EC take the shape of a more robust organization, and for the first time in June of that year, members of the European Parliament were elected directly by the people of all the Member States. The Single European Act of 1987 provided the implementation provisions for the Single European Market, and it basically codified agreement on majority voting in the Council on a range of questions. It also formally codified the European Coordination in the sphere of foreign policy, which was known as the European Political Cooperation.[23]

In perhaps the most landmark event, the Maastricht Treaty established the EU in November of 1993. The EU is comprised of the following fifteen countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. In 1995, Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Turkey applied for membership.

The EU created an explicit three-pillar structure with a new Common Foreign and Security Policy (CFSP) replacing the single act provisions in this area. The Treaty also codified the cooperation in the areas of judicial processes and in what is called Home Affairs. There exists in Brussels, Belgium, a European Commission whose function is to issue regulations and judgments, usually fairly technical in nature. The Commission's chief function, however, is in proposing legislation to the European Parliament. The Commission is comprised of twenty members and is appointed by common agreement of the fifteen member governments.[24] These individuals are then approved by the European Parliament and have primary responsibility for initiating and implementing EU policy in areas that fall under the EU communities. (The European Parliament has no real formal power to initiate legislation.) Examples of these policies are external trade policies, agricultural policies and policies concerning the internal market. The Council of Ministers, representing the member states, occupies the preeminent position in the current institutional power balance and decides on the Commission's proposals and represents a kind of executive role within the EU. Each member state serves as President of the Council for six months in rotation.[25]

The Treaty also re-expanded the scope of the European Economic Community, to include provisions for an EMU, which was created in May of 1998. The centerpiece of the EMU is a single European currency that was to be initiated from the end of the century onwards in time. Finally, as part of the Maastricht Treaty, the EEC was re-named the European Community (EC).

THE ORGANIZATION OF EUROPEAN SYSTEM CENTRAL BANKS

The European System of Central Banks (ESCB) is composed of the European Central Bank (ECB) and the National Central Banks (NCB's) of the member states of the EU. All fifteen member states of the EU are represented, regardless of their membership in the EMU (e.g. Great Britain). Currently, the membership of the EMU is comprised of the countries within the EU with the exception of Denmark, Greece, Sweden and the United Kingdom (Greece did not meet the criteria, while the other nations have currently opted out of the EMU.) The sum total of the eleven member banks that are part of the EMU and the central bank are known as the "Eurosystem." The NCB's of the non-member states that have not adopted the Euro and are not part of the Eurosystem are members of the ESCB with special status. That is, they are allowed to conduct their respective national monetary policies but do not take part in the decision making with regard to monetary policy for the Euro area.

The prime goal of the European Central Bank is to maintain price stability.[26] The goals of the Eurosystem are to carry out such tasks as conducting foreign exchange operations, managing foreign reserves of the member states, helping to promote smooth operations, and of course implementing monetary policy within the Euro area. (Again, the Euro Area being the eleven counties within the Eurosystem).

Briefly, the Eurosystem is centralized through its decision-making bodies within the ECB. These bodies are the Governing Council and the Executive Board. Non-member states that have not adopted the Euro are represented through the General Council. The Governing Council plans and executes day-to-day operations, and is comprised of the eleven member NCB's who have adopted the Euro. They are chiefly concerned with establishing and adopting guidelines, and formulating and executing policy. The Executive Board has a president, vice president, and four other members chosen and appointed by common accord of the member heads-of-state by recommendation of the Governing Council. Finally, the General Council is comprised of a president, vice president and the governors of all the NCB's of all fifteen member states. This council provides housekeeping functions such as, preparation of quarterly and annual reports, collection of statistical information, rules for standardized operations, setting the conditions of employment and other standard human resource functions.

The interesting point here is that the Eurosystem is independent. Whenever it conducts business, the ECB and the NCB's are protected and prohibited from either an attempt at influence or direct instructions by the member states. Members of the various bodies mentioned above have essentially secure minimum renewable five-year terms, while members of the executive board have minimum renewable terms of eight years. Similar to the US Federal Reserve system and its chairman, members of the executive board can "outlast" those that voted them into office, and are largely protected from the influence of their home states. Removal of members is really only possible through some act of serious misconduct or illness, and requires that the Court of Justice of the European Communities to settle any disputes.[27]

A SHORT EXPLANATION OF THE EURO

Although the Euro itself is not the issue of this paper, it is helpful to review what it is, how it came to be, and the implementation schedule for the Euro within the Maastricht Treaty. Again, it is the schedule that has, in an offhand way, driven those in Europe to take "sides" either for or against the idea of a European Monetary System. Without the impetus of the schedule, most Europeans would still be just thinking about the ramifications of such a system, countries would not be holding referendums on the pros and cons of adopting such a system, and the feelings of nationalistic fervor of many would not be so readily apparent. The battle lines have been drawn because of the inevitability of events set in motion in Maastricht.

For those in the EMU, the very name of the common currency that would be used took on some importance as various countries looked for noble themes and ideas. The Treaty of Maastricht never named the currency, only referring to it as the European Currency Unit (ECU). Germany, for example, didn't want to name the new currency, "Ein ECU," that sounds like "a cow" or "eine Kuh" in German.[28] The name "Euro" was chosen in December of 1995. There are 7 Euro notes (500, 200,100,50,20,10) and 8 Euro coins (denominated into 2 and 1 Euros and 50,20,10,5,2,1 cent). For now, at least, the notes will have the European symbol on one side while the reverse will denote a bridge from some particular point in European history. The metaphor is self-evident. The coins will have the EC symbol on one side, while each state will be able to put their own motif on the reverse.

Regardless, coins with Belgian motifs on them will spend in France or elsewhere just the same.

Finally, some key time events need to be put forth, because it is the timetable that affects the whole process. In 1977, legislation established the Euro as a currency. Also in the same year the Stability and Growth Pact was signed setting out the timetable for the imposition of financial penalties on countries that fail to correct situations of "excessive" deficits and debt promptly enough.[29] In 1998 the Euro was established as the single currency for EMU members, for the coin's technical specifications, and the start of their production. In January 1999, the banking and finance industries of the EMU changed to the Euro as their standard form of currency, and irrevocably fixed their exchange rates. January 2002 is expected to begin the circulation of Euro banknotes, and also begin the circulation of the Euro coinage. By July of 2002, the legal tender status of national banknotes and coins is scheduled for cancellation.

ISSUES IN DEMOCRACY

WHAT MAKES THE EURO A "GOOD DEAL" FOR EUROPEANS

Now is the time to ask why most Europeans wanted the EMU to begin with. Why go through the pain and angst of establishing a monetary union and a common currency; and what makes it a "good deal" to do something that has not been easy to either plan or implement with so many stakeholders involved in so many separate states? The reasons for the creation of the EMU were largely political, and economics seems to have played a secondary role in the consideration of its creation. When the Berlin Wall fell in 1989, East and West Germany became unified. In Europe (Great Britain and France), the unification of Germany made many of its citizens uncomfortable, as they thought back on the pre-World War Germany of the late 1930's and early 1940's, Germany's current financial strength, and the promise of continuing or even improving upon that strength in the future. It was an incredible amount of negotiation and hard work, principally between Britain's Margaret Thatcher, Chancellor Helmut Kohl of Germany, and President Francois Mitterrand that resulted in the Maastricht Treaty. For France and Britain, the political opportunities of restricting Germany's monetary policies to those of a united Europe through what is now the Eurosystem were simply too hard to resist. For the other current member states of the EMU, it was an opportunity to tie their currencies to a solid German Mark. At the same time, Germany's own wartime experiences had left it with an overwhelming desire to control inflation, and at that particular point in time the German Deutchmark was very strong compared to the rest of Europe. The opportunity to put together an EM and work with (and not against) Germany to shore up the sometimes sagging foreign exchange rates within the other member countries was a powerful motivator. This didn't happen overnight.

A LITTLE MORE HISTORY

Since the initial process of market unification in1957 with the European Customs Union, many in Europe had been looking to find a way around the government imposed standards of each separate country. These differing standards, along with separate licensing, registration requirements and purchasing practices, have made trade within Europe difficult if not impossible. Differing national tax structures, and even seemingly simple things like health and safety regulations have prevented the effective transfer of workers between different states within Europe. For example, differing tax structures might have Belgium requiring a higher Value Added Tax (VAT) than say France. In order to prevent Belgians from crossing the border into France or other countries to buy the same goods and services, Belgium would be forced to set up customs checkpoints on its borders, or use other measures. These customs checks would have to extend to checking for health and safety, quality and a host of other things Belgians would want to control. In 1985, the EU's executive body (The European Commission) issued a White Paper that would remove all these trade barriers (taxes, capital movements, labor movements).

SO WHAT HAPPENS NEXT?

The Europeans had some choices in the methods of linking their currency with one another. At one end of the spectrum, they could have each made a number of fiscal and monetary policies designed to work together. That is, each country would retain the right to adjust its own policies for some greater common good. The odds of this sort of thing working would have been extremely low in terms of success. At the other end of the spectrum was the choice to go to a common currency, fix everyone's exchange rates, and give almost all of a nation's monetary policy-making authority over to a central bank. This latter method would serve to truly unify Europe.

In 1989, Jacques Delors, president of the European Commission, recommended a three-staged transition to meet this end.[30] His first recommendation was that all EU members join the European Monetary System Exchange Rate Mechanism (EMS). During stage two, exchange rate margins would be narrowed and certain macroeconomic policies placed under a more centralized EU control. The last stage involved replacing currencies by a single currency, and vesting all monetary decisions with the European System of Central Banks (ESCB) much like the US Federal Reserve System. The Treaty of Maastricht codified those goals in 1993 after all countries belonging to the EU had finally ratified the treaty.

THE ECONOMIC GOALS OF THE EUROPEAN MONETARY UNION

Simply put, the countries in the EMU seek the shelter and protection of an economic union with one another. They believe that a single currency will promote better market integration than previous fixed exchange rates by removing continuous separate currency realignments to achieve the same goals. Also, a common currency would save the headaches of trading and converting currency between various countries by removing that process and inherent loss of revenue (which trading currencies causes).

There were political winds blowing too. Germany's strength within the European community was seen by some as too threatening to a process of true unification that didn't have Germany's economic interest coming first. By establishing a true European Central Bank, the German Bundesbank would lose some of its power, and be relegated to being equal, say, among EMU members who could now voice their opinions on monetary policies. The Germans would have to work with their neighbors for a common good.

The consequence of capital moving freely between countries forces the issue of common currency. This is because now, countries in a union have little to gain and much to lose if they do not fix their exchange rate through a common currency. The alternative, that is, fixing exchange rates on their national currencies, opens each country up to speculators attacking weaker countries. This happened in 1992 when the Exchange Rate Mechanism (ERM) within the older European Monetary System (EMS) collapsed (as German re-unification occurred after the collapse of the Berlin Wall).[31]

Finally, although not an economic goal, there are certainly forces within Europe who hope that the Maastricht Treaty, the creation of the EMU, and the implementation of a common currency will lead to a more stable Europe, which puts economic and political rivalries aside. The EMU, once created, would be a formidable power that could combat problems across Europe by alignment of economic interests.

WHAT AMERICANS WANT

It should be no secret that Americans want many of the things that Europeans want. The U.S. has long supported the economic integration of Europe as the best route to a more prosperous, self-confident Europe where ancient animosities are buried in economic self-interest. As important, however, America needs a strong, reliable partner that can play a credible role in helping manage an increasingly complex world. Thus, America is ill served by a Europe preoccupied, or, even worse, divided, by internal problems.[32]

The EMU has significant implications for global markets, U.S. foreign and monetary policy, and the future of international monetary institutions (such as the G-7).[33] Euros could take the place of dollars in Buenos Aires or Moscow. Asians and Latinos could shift their own reserves out of dollars and into Euros. OPEC could stop pricing oil exclusively in dollars, and foreigners who finance the U.S. trade deficits could start demanding that some of those debts be denominated in Euros.[34] The United States wants an economically solid European trading partner in which it can work to help build a Euro-Atlantic marketplace. The U.S. wants an Atlantic partner capable of helping the United States advance both U.S. and European interests, and defending them through NATO and the European Security Defense Initiative (ESDI) if needed. Finally, the U.S. wants stability within Europe. If the EMU provides a tool or process that achieves peace in the region, and at the same time can benefit the U.S., then we are absolutely behind the EMU and ESDP.

GOOD ECONOMICS

The member states within the EMU are looking for economic advantage. They are looking for what economists call an "optimum currency area."[35] An optimum currency area gives the member countries certain advantages based upon the degree of integration each member has with its partners. The theory states that fixed exchange rates are most appropriate for areas integrated through international trade and factor movements.[36] In other words, the more extensive cross-border trade and the movement of capital with its other member states in the Euro zone, the greater the gain for any one of the member countries. The more stable the price levels are within the Euro zone, the better for all countries that peg their exchange rate to the Euro, despite small fluctuations in their own economies. The U.S., Japan, and Asia do not fix their own rates despite good trade relationships, because the degree of actual integration with one another is not all that great. Rather, each of these countries lets its exchange rate "float" by comparison (that is, the central bank will not intervene in the foreign exchange market to fix rates). To be completely successful, the nation states of Europe need to look and act remarkably like the individual states with the U.S. (to use a comparative example). That is, all the EMU countries need to be able to trade with one another with minimal complications with monetary controls similar to the U.S. Federal Reserve system. The jury is still out on the success of the EMU, and I will discuss some of the economic pitfalls later in this paper.

WHAT EUROPEANS FEAR ABOUT THE EMU

There is a theory that the world, and indeed Europe, is becoming a "cosmopolitan democracy."[37] That is, globalization is beginning to integrate societies and economies to an even greater degree. The recognition of a cosmopolitan democracy involves the recognition that we live in a more complex and interconnected world where certain issues and policies are appropriate for local governments or nation-states, while others are more appropriate for whole regions and still others have an effect on the world as a whole (i.e. world health, world environmental issues). For example, environmental issues can be locally monitored and challenged, nationally regulated and supervised, and regionally checked for cross-national standards and risks; and finally globally evaluated in light of their impact on the health, welfare and economic opportunities of others.[38] If such things as global warming and the disposal of waste require the proper division of powers from a state, regional and global perspective, can nation-states survive, or are they needed as borders and fixed territories become more and more blurred? This argument makes the issue of sovereignty much more difficult as the number of stakeholders increases past clear national boundaries.

It could be argued that many of these attributes within the cosmopolitan democracy theory also apply to European economics in terms of a centrality of decision-making that becomes in essence, a united or federalized Europe. Great Britain has refrained from joining the EMU. While many of its arguments against joining the EMU are compelling, some can be used as examples that mirror many of those (not just many Britains) who feel alike within Europe.

Many in Europe say that simple discussions about globalism remove consideration of self-governance from the equation. These arguments cite institutions such as the International Monetary Fund (IMF) or World Bank as regulatory bodies that are completely undemocratic. These institutions advocate fair play for investors, but not citizens. These organizations lack real due process, rules of evidence, public hearings, etc. This argument is used at the same level as the EMU. How can the EMU, largely regulatory in its organization, really take care of the rights of individual citizens? The argument goes that the more we transfer decision-making away from non-democratic bodies to those of the central banks the less democratic accountability will come into play. A democratic society, of course, requires a polity. As Michael Portillo (a member of Prime Minister John Major's Conservative cabinet) said,

> " And for better or worse, the locus of the polity is the nation-state. There is no global state, hence no global polity and no global citizenship. I am a voting citizen of the United States of America, not of the Republic of NAFTA."[39]

Some people say that a single currency being introduced where no single labor market exists is potentially dangerous. Unlike the U.S., where labor is mobile and the same language is spoken (for the most part), Europeans face language barriers, and barriers to movement in terms of qualification and local culture. In the future, variations within state economies and between regions of Europe cannot be adjusted by taxation or interest rates. Instead, interest rates must reflect the "pegged" Euro rate, making it more difficult for individual countries to adjust to local economic conditions, making the full weight of recessions fall on unemployment within a state.

For some this is too much of a price to pay. Many in Europe take a stand against the U.S. view, which says the EMU with a linked and common currency reduces regional tension. Some want nation-states to be replaced by European states dependent upon each other. This is a more than simplistic approach to a much more complex problem. Portillo argues,

"But it is not enough to assert that European wars have been caused by rampant nationalism. Two other elements have also been necessary, despotism and a sense of grievance. In all the European wars of the last two centuries the aggressors were despots: French revolutionaries, Kaisers, emperors, Hitler, Stalin. They capitalized ruthlessly on some supposed injustice done to their nation, some piece of territory that had to be restored to the mother or fatherland, some minority that yearned to be set free from its foreign repressor."[40]

All this is to say that the centrality of democracy is important, and putting faith in non-democratic institutions, or suggesting that a federal state of Europe can be successful in running a particular country gives many cause to reject the EMU. The argument is that democracy (for want of a better form of government) is the chief cause or reason for peace. European integration would become the chief reason for the loss of national security and democratic control, and induce countries to become more nationalistic, while weakening democracy. What do Europeans fear then? They fear a loss of democracy and a return to even greater nationalization as citizens attempt to reaffirm their own sovereignty in matters economic—which become increasingly political.

RISKY ECONOMICS

As countries within the EMU struggle to make the union more efficient in terms of regulation (thus making it even more optimal for capital to transfer), we know that process is far from perfect at this point. Something that bears close scrutiny is Europe's labor force. As previously stated, labor becomes a very key factor (or problem) in a state's ability to adjust to variances within its economy if monetary policy is removed from the equation by the central banks. However, labor in Europe must be mobile in order to take advantage of shifts or imbalances in trade. For now, labor is less mobile for factors mentioned earlier (skills, culture, etc.) than it could be or should be. A vast amount of the difficulties in European countries trading easily with one another are caused by government (intra-state) regulations. To the EU's credit, these are being worked constantly, but these actions may not be fast enough to save the Euro. Currently there are enough differences in Europe (say between France and Spain) to make dissimilar economic structures a barrier to improving the optimum currency area. Low skilled labor (more prevalent in the South) will have to become integrated with the more technical northern Europe in order to level the various state economic structures. Also, unlike the United States, the EMU does not currently allow for the ESCBs to "save" a country in fiscal difficulty in the same way the Federal Reserve can help offset a slow economy in one of the U.S. states. To summarize this section then, Europe is not yet an optimum currency area, nor has it kept up politically with its economic ideals of a federalized and unified Europe. Labor markets are a real hindrance to positive leveling of economic systems between states, which are key to helping to control either inflation or recession in those various states. Lastly, there are real constraints on EMU states' fiscal policies (Stability and Growth Pact (SGP)) that (in the absence of fiscal federalism) prevent those states from helping one another out using the Central Banks when any country or countries is suffering to try and maintain the exchange rate of a more powerful central market.

The problem that was posed earlier in the paper stated that there was a connection between economics, the EMU, and states within the EMU being able to enter into positive cooperative defense agreements with the U.S. One consideration is that political constraints that force a particular state to maintain fiscal and monetary policy, could conceivably force it to make decisions more favorable to its EMU neighbors. After all, I stated that the more trade within the Euro zone, the better for each trading partner in stabilizing economies. That, coupled with the need to reduce regulatory barriers, encourages labor movement through various incentives and makes inter-trade a better incentive than intra-trade between Europe and the U.S. on some key items. Defense might be one of those key areas.

In addition, a consideration that may become a barrier to defense cooperation in some circumstances needs to be made to the European Security Defense Policy (ESDP), which is discussed in the next section.

ISSUES IN DEFENSE COOPERATION

A SHORT HISTORY OF EUROPEAN DEFENSE

The European Defense Community (EDC) was established in 1954. The European Community has a long history of having considered its own defense, and has long attempted to find the right set of circumstances to make the dream of European Security go from the speculative stages to an actual process upon which all EU states could actually agree. The Soviet invasion of Afghanistan and the Islamic revolution in Iran brought home to the Member States the growing importance of the EC on the international scene.[41] In 1981, they adopted the London Report that required prior consultation by Member States of each other and the EC on all foreign policy matters affecting all Member States.[42] In 1993, the Treaty of Maastricht included language that called for the eventual framing of a common defense policy, which might in time lead to a common defense.[43] In the fall of 1998, British Prime Minister Tony Blair changed the direction of Great Britain (previously against European Defense identity outside of NATO). The new British interest, coupled with the fact that the Kosovo campaign highlighted many weaknesses in Europe, led to advances towards a common European security and defense policy for the EU. In 1999, the Treaty of Amsterdam transferred many of the functions of the Western European Union (WEU) to the EU, with the exception of Article V of the Modified Maastricht Treaty; which allows the EU to carryout crisis management operations with politico-strategic control over national and multi-national structured forces outside NATO using NATO structures.[44] The eventual goal is that by 2003, the EU should be able to demonstrate resolve in putting together a military force package, and jointly deploying that force within a sixty day time period for up to one year. The size of the package is roughly 300,000 troops, 400 aircraft, 100 ships, and the necessary support structure, command and control, etc.[45] Many Europeans are skeptical that the complete process will be in place by 2003, but are aware that the "world" will be watching to see that much of the plan has been accomplished, with a solid plan to complete the remainder of the actions required to operate such a mechanism.[46] Additionally, the Europeans seem to be leaning towards an ESDP plan that is not global, but simply pertains to Europe. This is a primary difference in U.S. and European goals. Admittedly, the Europeans may choose to implement their plan in stages, but eventually, the U.S. will require European assistance in global problems that affect all parties mutually. The U.S. will not play the role of "world policeman," while protecting European interests in other countries outside of Europe.[47]

U.S. RESPONSE AND PERSPECTIVES

The Clinton Administration encouraged the ESDP/ESDI, primarily for the purpose of encouraging burden sharing by the Europeans in matters of defense (for example, Bosnia and Kosovo). After all, one of the key tenets of U.S. policy involves having our allies support our actions where the U.S., NATO and the EU have mutual goals; particularly where military action of some type is required. Much of the U.S. is in favor of the ESDP. However, it still worries that ESDP might lead the EU away from NATO in some way, and in so doing, lessen U.S. ability to influence actions in Europe or elsewhere. The U.S. wants to support ESDP to the extent that it remains part of the NATO process, and does not evolve away from NATO. The logic is that two organizations would compete (among other things) for resources and more importantly in their political goals. As mentioned earlier, the U.S. expects its European allies to share military actions around the globe where both the U.S. and Europe have similar interests. The U.S. will continue to reconsider becoming a presence where it is the sole participant in a global action, if that action also protects allied interests. Many U.S. leaders feel that the U.S. is the heart of the NATO alliance, given its financial, military and technical resources, which it shares amongst its NATO allies. Without the U.S., the argument goes, there is not really a NATO; and without NATO, there is no solid ESDP.[48] The U.S. is concerned that Javier Solana (Secretary General of the EU Council, and the EU's first High Representative for the foreign and common security policy) pledged to invest more dollars into its European Security base, while NATO members (i.e. Germany, Scandinavia, Netherlands, France) have actually cut their defense budgets. The Americans ask how the Europeans can accomplish their goals if they are not willing to finance their own infrastructures.

CONCLUSION

EUROPEAN DEFENSE PROGRAM MOVING SLOWLY

Obviously, in a Europe that is searching for answers, the process of defense cooperation is becoming complex. How will a Europe that is struggling for financial independence within the EMU, and the independence to construct its own defense security process, be able to channel its resources towards the U.S.? How can the U.S. take advantage of the current situation in order to continue to further its own security objectives? There seem to be far more questions than answers at this point, which may be a consequence of the many factors involved. The relative immaturity of the EMU's common currency and economic position, as well as the EU's immature plans for a common European defense serve to make any definitive answers difficult.

Both the Europeans and the U.S. are aware that ESDP must be more than a "paper exercise" after so many attempts at a unified security plan. The Europeans need a process that has muscle to back up its voice. The question of global interest is not really the issue here. Of course, say the Europeans, we have global interests. The real debate is about how and when the Europeans will fortify those interests as NATO partners. For example, French leadership feels the U.S. should take the lead in "policing" the globe as they see the U.S. as a "hyperpower," and argue Europe should constitute a factor of equilibrium in the world.[49] The Europeans believe that Europe itself is not a subset of NATO, and that Europeans cannot be made to become a checkbook for foreign policies of others. The Europeans want Washington to engage in the formulation of ESDP and its relationship with NATO in order to affect the fundamental character or structure of the policy.[50] If this doesn't happen early on, say the Europeans, how can the U.S. be dissatisfied with the outcome? At the same time it is probable that Washington is concerned that the U.S. will have to bail out a failed European military mission that has no NATO support. The U.S might see that Europe seems willing to use the U.S. as a foil to explain away its own problems should a European mission fail. And, like the Europeans, the U.S. is concerned that if the Europeans do not get the "theology" right at the onset of their planning, the rest will fall apart down the road. Again, the U.S. sees its power to influence European policies as legitimate within the framework of NATO.

ECONOMIC RISKS TO DEFENSE COOPERATION

Economically, the EMU needs to succeed. There is not currently an "optimum currency zone" as mentioned earlier which is so critical to the EMU's success. Globally, the U.S. is projected to account for almost 65% of the growth within the G-7/8 countries in 2000.[51] This growth is attributed to technological spending, with one third of the growth in the first half of the year coming from the technology sector. Given that the U.S. is still growing and still putting a considerable amount of its resources into this field, the technology gap between the U.S. and its allies will only widen. The GDP for many EMU countries was down during the summer, as well as capital business spending. This may be driving down the value of the Euro overall, as Europeans still continue to invest their funds in a strong U.S. economy.

If European leaders want to save the Euro, now is the time. It is an important symbol of Europe's commitment to real economic and political change, and there is certainly a more than fair commitment to the Euro's success. However, the leaders of the EMU countries themselves need to commit to backing the Euro. For example in the short run, the EMU countries need to build up their supply of Euros within their system of central banks.[52] It seems plain that if the EMU countries don't want to save Euros, no one else will want to invest in them either. While the Central bank can set monetary policy, fiscal policy is still set within each EMU country. National governments will have to work together or other markets won't begin to take the Euro with any seriousness. Any real shock to an EMU country's economy (e.g., WMD, widespread terrorism, a huge influx of refugees) will have a real, negative affect on the EMU, as those member states will have to bear the burden of their neighbor's weak economy. Shocks such as these will preclude EMU countries from serious defense cooperation while they attempt to save their common currency system. At the same time, EMU countries may feel that in order to help grow their respective economies they will be forced to do more defense business with one another to save their own labor and industry. Political decisions could outweigh decisions to cooperate with the U.S. by reducing the amount or kinds of sales purchased directly or through the FMS process.

POLITICAL RISKS TO DEFENSE COOPERATION

Politically, the EU may have to grapple with its own role in a common European defense and its relationship to that of the U.S. and NATO. The U.S. expects participation from its allies, and for them to become bill payers in a global economy and where necessary, to assist the U.S. in a global crisis. The EU must succeed in formulating coherent plans early on which include the U.S. The EU must use NATO and not abandon it, thereby competing for resources and confusing the Europe/NATO role. Here there are ample opportunities for the U.S. to increase its cooperative role, but only after Europe is clear in its ESDP planning process. There are difficult questions that affect U.S. European relations (i.e. how will the countries in South Eastern Europe be treated by the EU/ EMU such as Turkey, Serbia, the Ukraine and Russia). If NATO's plans are not in sync with the European Defense plan, there will be less cooperative opportunities in the long run.

The bottom line in this whole process of looking at European economics, together with its proposed EDSP can be reduced to one clear fact. The impact of the EC's decisions with respect to EDSP has yet to be felt, with effects unknown for at least two to three years. The processes and formulas used to initiate and sustain EDSP will greatly affect how Europeans deal with the U.S. in defense cooperative ventures. The future of Europe's single currency, the Euro, will have a definite impact on the respective economies of the EMU countries, and therefore affect how each country is willing to spend its Eurodollars, and with whom they spend them.

Economics is forcing the European states to act more in accordance with one another than ever before in order to sustain their common currency. European states may have to collaborate in order to save their economies, thereby reducing their previous dependence on U.S. systems. Although the Europeans want the U.S. as part of their ESDP strategy, it may be impossible from an economic viewpoint to accomplish all they desire. At the same time, European countries are spending less than their U.S. counterparts on Defense related research and development, operations and production.

The U.S. needs its allies, but in many ways, their allies continue to slip behind technologically. It will be increasingly more difficult to expect our allies to move, shoot and communicate with us when our primary systems for doing so will be so radically different. While it is true that today current defense cooperative relations, sales, and military to military relationships are quite good, the U.S. may or may not fare as well as they have in previous years in some areas of defense cooperation.

RECOMMENDATIONS

The fact that the U.S. needs to improve and build defense cooperative relationships with our European allies is clear insofar as our National Security Strategy is concerned.

Let us assume that the EU is successful with both ESDP/ESDI and the implementation of a common currency. It is paramount that our country be a part of any solution, which would also entail early engagement by the U.S. in helping to seek solutions in both processes. It is recommend that we examine our current intermediate and long-range strategy for defense cooperation in light of the fact that the ESDP/ESDI will undoubtedly (though slowly) succeed. This prediction can be made because the Europeans have no other choice, that is, they have progressed to a point of no return in both ESDP and a common currency; anything less than success in either of these would reflect negatively on Europe as seen by Europeans and around the world. It is recommended that we ask ourselves if our current processes and systems are really current, robust and responsive enough to plan and execute a comprehensive cooperative strategy. Can our current system spot and react to changes that have both military and economic consequences, and is everyone talking to one another in a way that will take advantage of rapid changes?

Economically, the U.S. supports the EMU and the Euro as a common currency. The U.S. has a large stake in insuring that the Europeans "get it right," to preserve our own economic well-being. The U.S. defense establishment needs to make use of economic analysis, and take those analyses into account as we build our National Security Strategy; because European economics will drive their own decisions as to how much and when to invest in cooperative efforts with the U.S. These analyses and predictions should play a significant role in designing our long range, intermediate and short-range military strategies with respect to industrial and military cooperation.

Further, the U.S. goal should be to have a clear link from the executive branches of our government, through the legislative to the Department of Defense and its appropriate agencies for cooperative planning. In other words, Defense Cooperation and its various facets should be more clearly addressed within the National Security Strategy, National Military Strategy, Joint Planning Documents, and in the Defense Planning Guidance. USD (A&T) and USD (P) need to also be intimately involved in the NSS/NMS process with regards to cooperative planning. An understanding of Europe's economic future is key to projecting the types of military sales and cooperation U.S. forces and industry are capable of providing. Both of these organizations are poised to provide the right types of guidance to the military having concluded something akin to a bottoms-up review of military and agency capabilities while participating in the President's National Security Strategy planning process.

Ultimately for the DoD, the Chairman's Program Assessment should drive the CINC's planning for defense cooperation in the same fashion that ties the Planning, Programming and Budgeting Phases (PPBS) of the service programs to the CINCs requirements. This should also include the NATO force planning process. For example, the U.S. Defense Capability Initiative (DCI) should also become part of the CINCs Theater Engagement Plans (TEPs) so as to integrate U.S. national strategy with the PPBS and U.S. force modernization goals. Currently, Office of the Secretary of Defense (OSD) planners do not always take U.S. strategy for Defense Cooperation completely into account when making fiscal/budgetary decisions relative to our service military programs. Oftentimes, program budgets are reduced without looking to the affect of those decisions on allied cooperative issues, and our overall national strategy. In effect, current PPBS budgetary processes can weaken agreements entered into by the U.S. with its Allies, and the U.S. can sometimes become its own worst enemy.

Their framework already exists in terms of agencies and organizations, but the various stakeholders within the process need to communicate with one another more frequently and completely to eliminate guesswork on the part of those involved. One example of the current approach is to query the services for "good ideas" after a meeting such as the National Armaments Directors (NADs). That is, a request to investigate certain cooperative opportunities discussed at a NAD conference is normally pushed down for each service or separate agency to investigate, and report back upon. If, after some assessment, the service (or agency) has the capability to assist cooperatively, the U.S. will support the request (all things being equal). However, the success of such opportunities are by default, driven from the bottom up as each service/agency tries to satisfy queries for information developed at the NAD conference. Using the U.S. Army as an example, requests from the NAD may be pushed down to the Training and Doctrine Command (TRADOC) as the U.S. representative to the NAD asks for the Army to look for a certain gap or technology. From there, TRADOC might pass its findings through the Deputy Chief of Staff for Operations and through the Deputy Undersecretary of Defense (International Affairs) for possible action if such an opportunity existed. The result is that the U.S may cooperate bilaterally in some way with another country, or with a group of countries if the requirement involves NATO.

Alternatively, linking the NSS/NMS (and including initiatives as DCI and other NATO objectives) should be required for seamless planning and integration. This planning guidance should be principally driven from coordinated efforts between Department of State and the National Security Council Staff and pushed down through OSD.

This integrated flow-down would induce OSD to give service guidance (perhaps regionally) that would include the various facets of Defense Cooperation that the U.S. has considered for that particular region. Each service needs to know the role it should play (long range, intermediate and short range) to achieve U.S. strategic objectives. PPBS decisions that influence programs, research and development, test and evaluation, deployment would include defense cooperative goals and objectives.

Policy and regulation might be written to include getting permission from OSD in certain circumstances before the service or OSD begins removing program funding (if the U.S. has made certain promises to an ally). Also, old regulations such as the Arms Export and Control Act and the Foreign Assistance Act should be re-examined for possible revision opportunities. Revisions should only be done with the "end in mind," and should not be changed simply to make it easier for foreign governments to obtain U.S. technology. With a coordinated NSS/NMS, each service will understand the scope of the cooperative agreements the U.S. desires to enter into with each particular nation, and what should be done to achieve the goals and objectives the U.S. has set for itself relative to those nations. A coordinated plan will have the effect of ultimately allowing services to better control their own planning processes.

For the Army, DUSA (IA) should insure the process of NMS effectively flows to each responsible Army element that has a role (i.e., anything from PfP to technical exchanges or co-production), and that concurrence of top-driven plans is being adhered to, and is integrated into NATO and CINC plans. DUSA (IA) has the framework to link directly to NSC planning staff for NMS planning on behalf of Army cooperative effort, and has the framework to ensure that ASA (ALT) has linked planning guidance to the PPBS for Army programs that require defense cooperation.

At the same time, DUSA (IA) has the opportunity to keep the Army Chief and OSD staffs informed of Army progress towards national goals.

As is sometimes the case, a review of current processes and procedures, and improved communications might be key to improving our ability to analyze, plan and execute U.S. defense cooperative strategy in a way that provides a distinct path from the executive branch to each service within the DoD. Greater initiative and use of electronic systems to communicate across various boundaries both vertically and horizontally will greatly aid planners and operators to keep track of the variety of tasks U.S. strategy will initiate. Modeling and simulation will help planners make better decisions, if the modeling can link the planned cooperative process with current and forecast economic models for the U.S. and Europe to the PPBS process for U.S. systems. Perhaps synthesizing this information can allow the U.S. to become more predictive with respect to industry and military requirements. Greater emphasis on regional planning with the goal of top-down guidance from the executive branch through OSD to the services is required for greater continuity and accountability. Use of organizations such as the Army's DUSA (IA) as program integrators, between Department of State, OSD, Service Chiefs and the respective commands within each service is paramount for the success of not only U.S. planning, but also NATO planning.

Word Count: 12,009

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[46]Based on remarks made by numerous speaker's participating in the EU&NATO symposium held in Norfolk VA. On 18 November 2000.

[47]Ibid.

[48]Ibid.

[49]"The Ageing Alliance," The Economist, October 1999, 10.

[50]Donfried, Security, 7.

[51]Michael J. Mandel, "Global Trouble Ahead?" The Economists, 2 October 2000, 45

[52]David Fairlamb et.al., "The Euro Mess: Here's the Way Out," The Economists, 2 October 2000, 140-144.

GLOSSARY

AECA	Arms Export and Control Act
ASA (ALT)	Assistant Secretary of the Army for Acquisition Logistics and Technology
CFSP	Common Foreign and Security Policy
CINCs	Commander in Chiefs
DCI	Defense Capability Initiative
DM	Deutchmark
DoD	Department of Defense
DUSA (IA)	Deputy Assistant Secretary of the Army for International Affairs
EC	European Commission
EC	European Community
ECSC	European Coal and Steel Commission
EDC	European Defense Community
EEC	European Economic Community
EMS	European Monetary System
EMU	European Monetary Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESDI	European Security Defense Initiative
ESDP	European Security Defense Policy
EU	European Union
FMS	Foreign Military Sales
FRS	Federal Reserve System
G7	Countries United in Setting Global Policy
GDP	Gross Domestic Product
IMF	International Monetary Fund
NADs	National Armament Directors
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NCB	National Central Bank(s)
NMS	National Military Strategy
NSS	National Security Strategy
OCA	Optimum Currency Area
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OSD	Office of the Secretary of Defense
PfP	Partnership for Peace
PPBS	Planning Programming and Budgeting System
R&D	Research and Development
SEA	Single European Act of 1987
SEM	Single European Market
SGP	Stability and Growth Pact
TEP	Theater Engagement Plan
TRADOC	Training and Doctrine Command
USD (ALT)	Undersecretary of Defense (Acquisition, Logistics and Technology)
USD (P)	Undersecretary of Defense (Policy)
VAT	Value Added Tax

WEU	Western European Union
WMD	Weapons of Mass Destruction

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